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ABSTRACT

Important changes are taking place in the U.S. labor market. The economy has performed solidly over the last several years; the labor market has experienced robust job growth. A strong labor market benefits different segments of the population. Unemployment rates for those with less than a high school diploma fell by the largest amount between 1992-97. Changes in job growth indicate a high degree of churning in the labor market with large numbers of jobs being simultaneously created and eliminated. Despite low rates of unemployment and tight labor markets, unemployment duration remains stubbornly high, which might reflect a growing mismatch between the skills needed in the marketplace and the skills of unemployed people. Job growth has been concentrated in those industry-occupation sectors paying above-average wages. The types of jobs that will grow the fastest in the future will be those requiring more and more education and training. Bureau of Labor Statistics projections suggest that employment in high-knowledge worker content industries will grow twice as fast as employment in low-knowledge worker content industries. A growing consensus is that in the new knowledge-based economy, organizations will gain the competitive edge by being able to learn faster than their competitors. What will count is an organization's ability to attract and retain knowledge workers, improve their capabilities, and provide the environment for rapid and continuous learning and innovation. (Contains eight charts and graphs.) (YLB)

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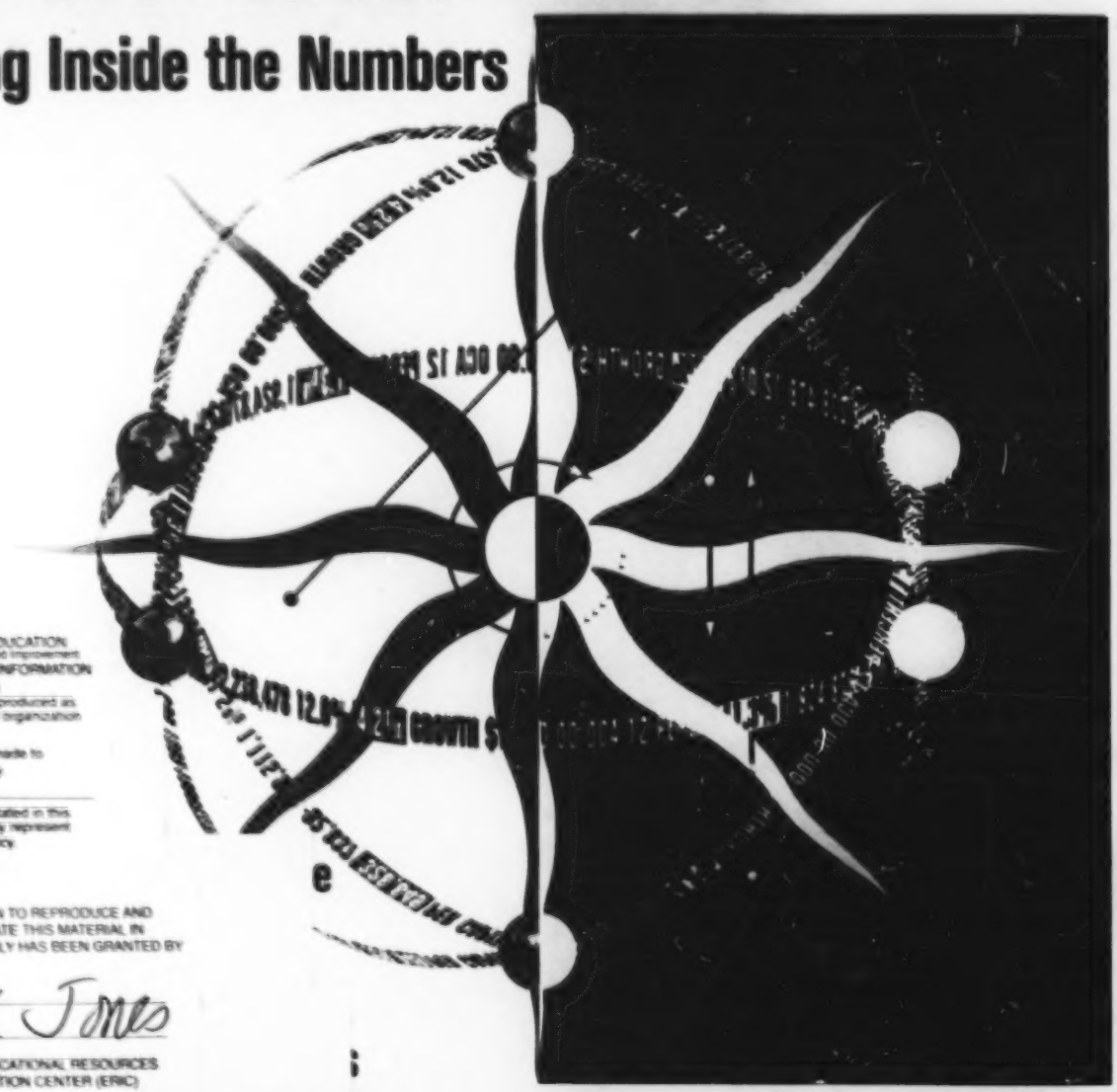
NATIONAL ALLIANCE OF BUSINESS

Economics

The U.S. Labor Market

Getting Inside the Numbers



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The U.S. Labor Market

Getting Inside the Numbers

As we approach the final year of the century, it is worth reflecting on where the labor market has been and where it is headed. Numerous articles have been written about the stellar performance of the U.S. economy, especially in terms of job growth. Some people suggest that we are entering a new economic era in which many of the old rules and conventional wisdom about the economy are outdated.

A Strong Economy

The U.S. economy has performed solidly over the last several years. Low inflation, strong growth in labor demand, low unemployment, high levels of private investment, growing weekly earnings and strong productivity growth characterize the most recent economic expansion. However, economic growth (as measured by changes in gross domestic product, or GDP) is somewhat lower now than during the economic expansion of the late 1980s, as are increases in per capita disposable income. While employment growth is slower today, it is also important to consider that labor supply is growing more slowly as well (see June 1998 *Workforce Economics*).

The performance of these indicators has not fallen off in the first six months of 1998. Real GDP grew by 1.7 percent in the first six months of the year. Productivity and employment both grew by 1.6 percent. Productivity continues to grow faster than its average of about 1.1 percent between 1973 and 1990, suggesting that the economy and living standards should increase at faster rates as well.

Changes in the Labor Market — The Broad Indicators

Over the last several years, the U.S. labor market has experienced robust job growth. Since the end of the recession in 1992 through the first six months of 1998, more than 17 million net new jobs have been added to the U.S. economy, which represents nearly a 16 percent increase in employment. In comparison, labor supply over the same period grew by just over 9.1 million persons, a 7 percent increase.

The divergence in these numbers has meant tighter labor markets and the lowest unemployment rates in nearly 30 years. For the first six months of 1998, the unemployment rate averaged 4.5 percent, compared with 4.9 percent for all of 1997. The last time the U.S. economy experienced similarly low rates of unemployment was in the late 1960s.

Changes in Economic Performance

Indicator	Annual Rate of Change 1987–88	1995–97
Real gross domestic product	2.4%	2.2%
Real private investment	1.3%	5.3%
Industrial production	2.1%	2.8%
Per capita real disposable income	1.3%	1.1%
Employment growth	1.9%	1.4%
Productivity growth	0.5%	1.3%
Average weekly earnings	2.3%	2.5%
Employment cost index	3.2%	2.2%
Total compensation	2.3%	2.4%
Consumer price index	2.7%	1.2%

Source: 1998 Economic Report of the President and the Joint Economic Committee

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A Strong Labor Market Benefits Different Segments

A strong labor market benefits different segments of the population. Unemployment rates for persons at different education levels highlight the importance of a strong economy in creating economic opportunity for all persons. Unemployment rates for those with less than a high school diploma fell by the largest amount between 1992 and 1997. The message is clear: The best jobs program is a strong economy.

A Churning Labor Market

While the data below highlight job growth as measured by changes between two points in time, it is interesting to consider how these changes played out in terms of gross job gains and losses. To capture this dynamic, we examined employment data for nearly 300 detailed occupations and focused on how employment within each occupation changed over time. Then we aggregated the results for the years 1983 through 1995.

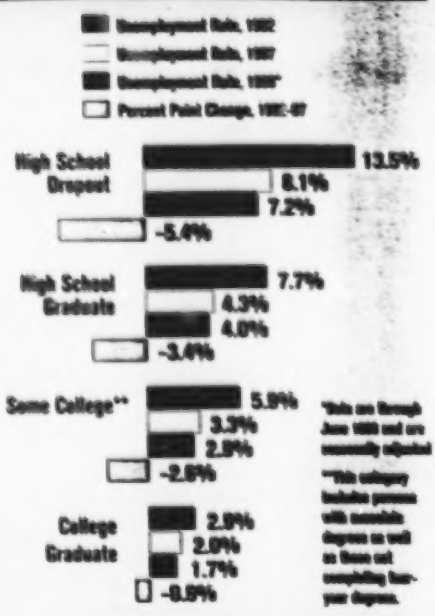
These data indicate a high degree of churning in the labor market. In periods of either economic expansion or recession, large numbers of jobs are simultaneously being created and eliminated in a given year. For instance, between 1990 and 1991, nearly 2.4 million jobs were created and more than 3.3 million were lost.

Unemployment Duration Remains High

Despite the low rates of unemployment and tight labor markets, unemployment duration remains stubbornly high. In June 1998, the median duration of unemployment was 6.6 weeks; in 1989, it was 4.8 weeks. Moreover, the percent of those persons unemployed for more than 26 weeks remains high compared with earlier time periods. Less than 10 percent of those persons unemployed in 1989 remained out of work for more than 26 weeks, compared with just over 14 percent for the first six months of 1998. At the same time, as the share of unemployment that reflects permanent job loss has increased, so has the duration of unemployment (see July/August 1995 *Workforce Economics*).

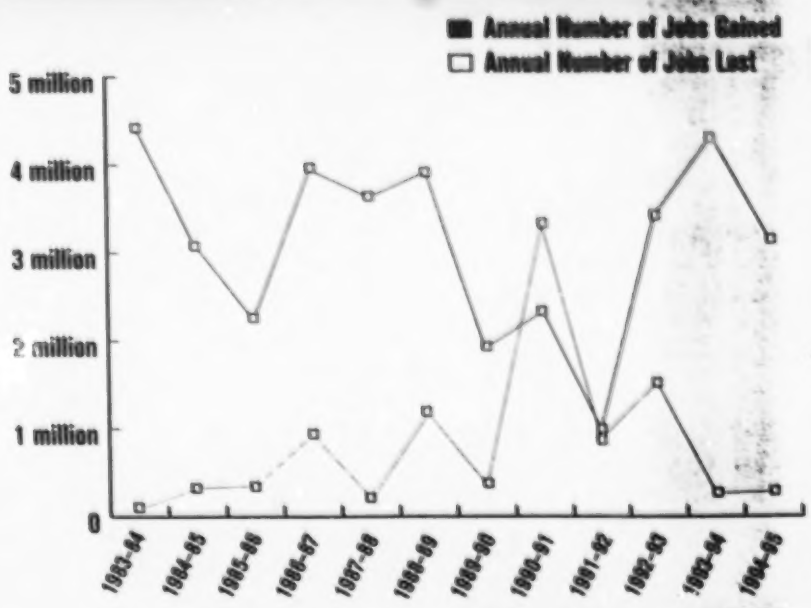
While we see a long-term upward trend in unemployment duration over the last 30 years, the median duration of unemployment did drop significantly in the first half of 1998, from 7.4 weeks in January to 6.6 weeks in June. Some suggest that more unemployed individuals have become discouraged

Unemployment Rate by Education Level



Source: Unpublished data from the U.S. Bureau of Labor Statistics and Employment and Earnings

A Choppy Labor Market



Source: Unpublished data from the U.S. Bureau of Labor Statistics, Occupational Employment Statistics

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over job prospects and dropped out of the labor force altogether, but the data do not support this hypothesis. In fact, the number of persons not in the labor force for this reason fell by about 12 percent between June 1997 and June 1998.

Others suggest that changes in unemployment duration reflect a growing mismatch between the skills needed in the workplace and the skills of the unemployed. There appears to be empirical support for the argument that the long-term upward trend in unemployment duration is related to the accelerating pace of technological change.

William Baumol and Edward Wolff, in a study published by the Jerome Levy Economics Institute, correlated the following five technology indicators with unemployment duration:

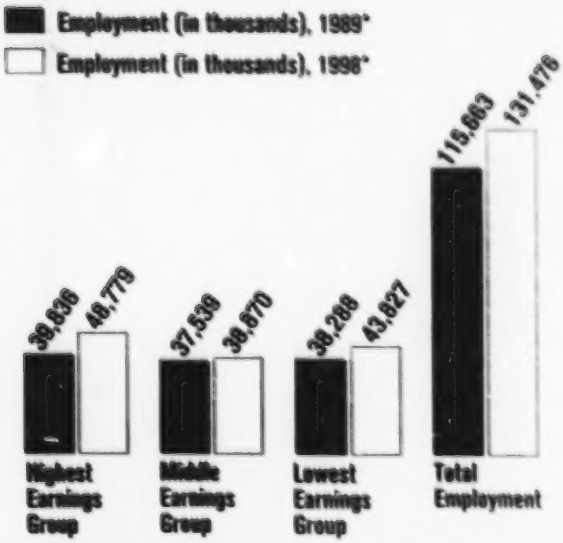
- Total Factor Productivity;
- the ratio of research and development expenditures to GDP;
- the number of full-time equivalent scientists and engineers per 1,000 employees;
- investment in new plant and equipment per full-time equivalent employee; and
- investment in office, computing and accounting equipment per full-time equivalent employee.

The authors found that a 1 percent increase in the annual rate of Total Factor Productivity is associated with a 12 percent increase in the average duration of unemployment. They also found that a $1,000 investment in office, computing and accounting (OCA) equipment was associated with a 53 percent increase in the average duration of unemployment. Interestingly, Baumol and Wolff found that increases in OCA investment increased the duration of unemployment for older workers but lowered the duration of unemployment for younger workers (see December 1996 *Workforce Economics*).

Job Quality: Good Jobs or Bad Jobs

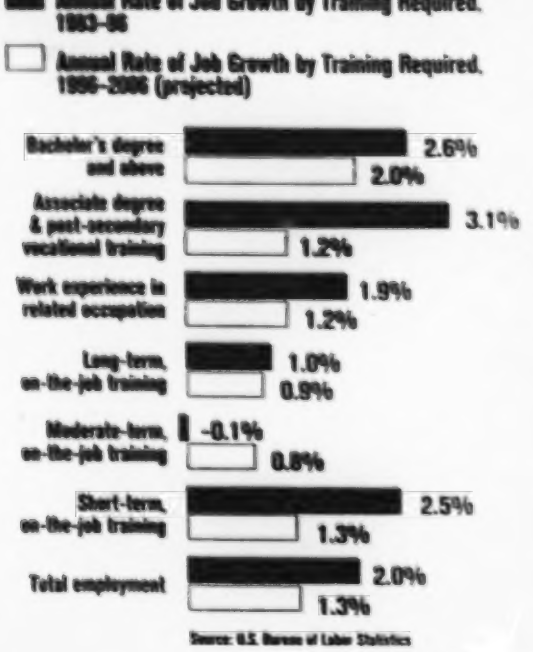
While labor demand is strong, many suggest that the quality of jobs being created is poor. For example, most job growth has occurred in the service and retail industries (which are lower-paying industries). On the other hand, if we look at job growth from an occupational perspective, we find job growth is concentrated in managerial and professional specialty jobs (higher-paying occupations). Crossing industry and occupational data provides a truer picture of job quality.

Employment Change by Earnings Level



*Data are for January 1989 and June 1998
Source: Employment and Earnings

Job Growth by Training Required



Source: U.S. Bureau of Labor Statistics

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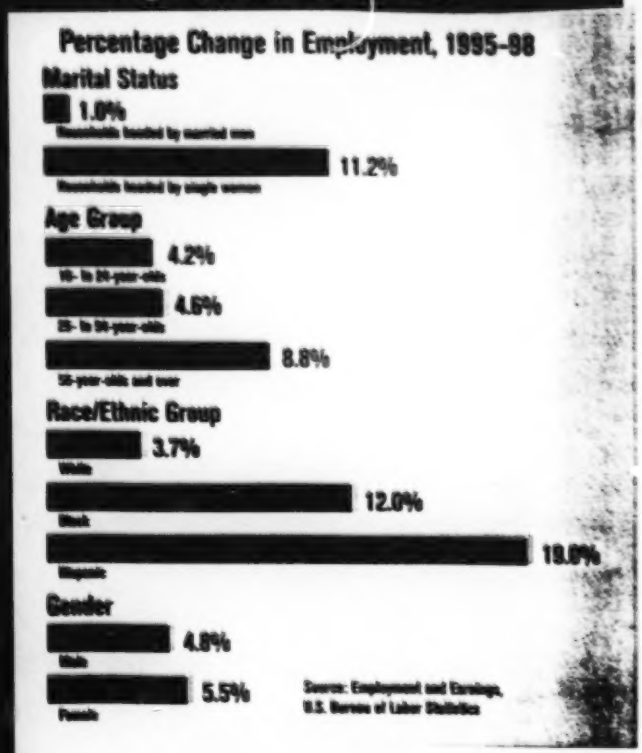
Randy Ilg of the U.S. Bureau of Labor Statistics (BLS) ranked 90 major industries and occupations according to median weekly earnings in 1993. He then grouped the industry-occupation cells into three categories that each represented approximately one-third of total employment at the beginning of the time period. The range of median weekly earnings for each category is as follows: Highest ($1,083 to $502), Middle ($502 to $342) and Lowest ($341 to $167). The National Alliance of Business has updated the data from the original time series developed by BLS to include data through June 1998.

Job growth has been concentrated in those industry-occupation cells paying above-average wages. Job growth in the middle is well below average. Roughly two-thirds of the job growth occurring between 1989 and June 1998 was concentrated in jobs paying above the median weekly earnings. Indeed, 56 percent of the job growth over this period is accounted for by jobs in the highest earnings group. Employment in the highest earnings group, composed of primarily managerial and professional specialty occupations, increased by nearly 22.5 percent, or 9 million jobs, between 1989 and June 1998. Jobs in the middle earnings group, composed of primarily manufacturing occupations, rose by only 3.5 percent, or 1.3 million jobs. Jobs in the lowest earnings category, composed of service and low-skill jobs, increased by 14.5 percent, or just over 5.5 million jobs, during the same period.

Strong Labor Demand Benefits Different Segments of the Labor Market



Education and Training

The types of jobs that will grow the fastest in the future will be those requiring more and more education and training. Using data from BLS, the Alliance examined how the educational requirements of jobs have changed over the last 15 years and what BLS projections say about the future. These data parallel the findings above — jobs at the high end are growing the fastest and those in the middle are getting squeezed.

From 1983 to 1996, employment in occupations requiring an associate's degree or post-secondary vocational training grew at a 3.1 percent annual rate compared to a 2 percent annual growth rate for all employment. Jobs requiring a BA or above increased at a 2.6 percent annual rate. Jobs requiring short-term, on-the-job training grew at a 2.5 percent annual rate over the same period. BLS projections for the 1996–2006 period are similar to the patterns seen from 1983–96.

The Alliance aggregated these categories into high, medium and low training needs and examined the net changes projected to occur in these categories by 2006. There will be a significant increase in the number of jobs requiring higher skills during the period 1996–2006. While jobs in the high training category represented approximately three in 10 jobs in 1996, they will account for just over four in 10 net new jobs created through 2006. In contrast, jobs in the low category accounted for approximately 52 percent of all jobs in 1996 but will account for 45 percent of all net new jobs created through 2006.

Knowledge Industries

Significant attention has focused on identifying whether job growth is and will be concentrated in those industries making more intensive use of knowledge workers. The Alliance classified industries into three categories on the basis of the percentage of industry employment represented by managerial, administrative, management support and professional specialty occupations. We divided industries into three categories: those with over 23 percent of employment in the occupations noted above, those employing between 10 percent but less than 23 percent in these occupations, and those with less than 10 percent of employees in those occupational groups. Across all industries, the percent of jobs in

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administrative, managerial, professional support and professional specialty occupations is just over 23 percent.

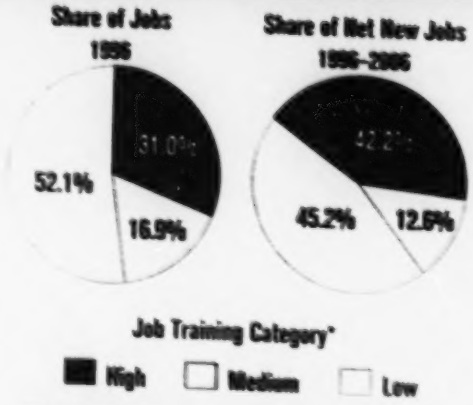
Industries in the first category include petroleum and instruments manufacturing, telecommunications, financial services, health care, education and business services. Industries in the second category include several manufacturing industries (electronics, chemicals, machinery), transportation, and a variety of service industries including real estate, advertising, personnel and supply. The third category includes industries such as primary metals, food processing, apparel and textile, retail trade, and many personal services industries.

The results of this categorization are compelling. Industries that employ a higher percentage of high-knowledge workers have grown much faster than those that employ medium- or low-knowledge employees. They will continue to grow in the future. Between 1983 and 1996, employment levels in industries employing high-knowledge workers increased by 41.7 percent, more than double the increase of employment in industries with medium-knowledge workers, and more than 15 percentage points higher than those employing low-knowledge workers. Using BLS's projections, employment in high-knowledge worker content industries will grow twice as fast as employment in low-knowledge worker content industries.

These changes also translate into important changes in the distribution of jobs. In 1983, about 44 percent of the jobs in the labor market were in high-knowledge worker content industries; by 2006, the percent of all jobs accounted for by these industries will increase to approximately 49 percent. At the same time, the percent of jobs in low-knowledge worker content industries is projected to fall from 27 percent in 1983 to 25 percent in 2006.

The data on job growth by earnings, by education/training and by knowledge worker use do parallel one another. Many conclude that, while entry-level jobs will continue to exist, the challenge will be to move people up the ladder into jobs with better pay that require higher and higher skill levels.

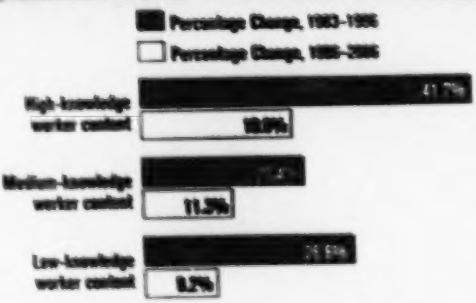
Most Job Growth in High Training Categories



*High includes all jobs requiring an associate's degree or post-secondary education and above. Medium includes jobs requiring work experience in a related occupation and long-term on-the-job training. Low includes jobs requiring moderate- or short-term on-the-job training.

Source: U.S. Bureau of Labor Statistics

Employment Growth Fastest in Industries with High-Knowledge Worker Content



Source: Unpublished data from the U.S. Bureau of Labor Statistics

Conclusion

While it may be too bold to say that all these trends point to a new economic era, there is no doubt that important changes are taking place. As Richard K. Lester noted in *The Productive Edge*, "The evidence ... points toward the need for a new national agenda for economic growth, tailored to the volatile, unpredictable conditions that seem certain to persist for the foreseeable future, and focused on the problem of investing in knowledge and skills."

There is growing consensus that in the new knowledge-based economy, organizations will gain the competitive edge by being able to learn faster than their competitors. What will count is an organization's ability to attract, retain and continuously grow the capabilities of knowledge workers and provide the environment for rapid and continuous learning and innovation.

Productivity growth, which is the key to increasing living standards, depends more and more on our continued investment in education and training. An educated workforce is not simply a luxury or pipe dream; it is a necessity in this new, high-tech global market system.

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